

**Improvements in Recording Third Party  
Addresses From Tax Returns Will Reduce  
Undeliverable Business Mail**

**September 2001**

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DEPARTMENT OF THE TREASURY  
WASHINGTON, D.C. 20220

INSPECTOR GENERAL  
for TAX  
ADMINISTRATION

September 25, 2001

MEMORANDUM FOR COMMISSIONER, SMALL BUSINESS/SELF-EMPLOYED  
DIVISION  
COMMISSIONER, WAGE AND INVESTMENT DIVISION

*Pamela J. Gardiner*

FROM: Pamela J. Gardiner  
Deputy Inspector General for Audit

SUBJECT: Final Audit Report - Improvements in Recording Third Party  
Addresses From Tax Returns Will Reduce Undeliverable  
Business Mail

This report presents the results of our review to determine if measures taken by the Internal Revenue Service (IRS) will result in a reduction of undeliverable mail to business taxpayers and if additional steps could be taken to achieve more effective and efficient updating of business taxpayers' address information.

In 1998, 1999, and 2000, the IRS updated address information for over 7.8 million business taxpayers during the processing of all paper and electronically filed returns. Based on a statistically valid sample of these accounts, we determined that after returns were processed, the IRS database did not reflect the names contained in the third party tax addresses as shown on 20 percent of these returns. This was caused, in part, by systemic limitations of the electronic and paper return processing systems. Since the IRS has no reliable method to collect data on undeliverable mail and to identify trends, management was not aware of the problem.

Management's response was due on September 20, 2001. As of September 21, 2001, management had not responded to the draft report.

Copies of this report are also being sent to the IRS managers who are affected by the report recommendations. Please contact me at (202) 622-6510 if you have questions or Gordon C. Milbourn III, Assistant Inspector General for Audit (Small Business and Corporate Programs), at (202) 622-3837.

# Improvements in Recording Third Party Addresses From Tax Returns Will Reduce Undeliverable Business Mail

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## Table of Contents

Background.....	Page 1
The Internal Revenue Service Does Not Always Accurately Process Third Party Tax Addresses to the Business Masterfile.....	Page 3
<u>Recommendations 1 and 2</u> .....	Page 8
A Consistent Policy Regarding the Notification of a Change of Fiduciary or Fiduciary's Address Is Needed.....	Page 9
<u>Recommendations 3 through 5</u> .....	Page 13
Tax Forms, Instructions, and Publications Do Not Clearly Explain How to Inform the Internal Revenue Service of Third Party Tax Addresses .....	Page 13
<u>Recommendations 6 and 7</u> .....	Page 15
The Method Used to Obtain Undeliverable Mail Information Is Not Reliable and Cannot Be Used to Help Identify Trends.....	Page 15
<u>Recommendations 8 and 9</u> .....	Page 17
Appendix I – Detailed Objectives, Scope, and Methodology .....	Page 18
Appendix II - Major Contributors to This Report.....	Page 21
Appendix III – Report Distribution List.....	Page 22
Appendix IV – Outcome Measures.....	Page 23
Appendix V – Hypothetical Case Example .....	Page 26

## Improvements in Recording Third Party Addresses From Tax Returns Will Reduce Undeliverable Business Mail

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### Background

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Contacting taxpayers through the mail is the most common way the Internal Revenue Service (IRS) communicates with the public. Address information used by the IRS must be current, complete, accurate, and in the proper format to ensure that mail reaches taxpayers.

The Internal Revenue Code (IRC) requires the IRS to notify taxpayers of taxes they might owe and about actions it plans to take to collect the taxes.<sup>1</sup> Since the Revenue Act of 1928, the IRS has been required to send such notifications to a taxpayer's last known address. Over the years, courts have generally defined a taxpayer's last known address as the address shown on the taxpayer's most recently filed tax return, unless the taxpayer notified the IRS of an address change.<sup>2</sup>

Undeliverable mail has long been a problem for the IRS. The problems created by undeliverable mail and the IRS' inefficient procedures for processing this mail have been the subject of multiple IRS Inspection Service (now Treasury Inspector General for Tax Administration) reports and recommendations since 1991.<sup>3</sup> A General Accounting Office report issued in 1994, also made recommendations, and estimated that the IRS' undeliverable mail addressed to business taxpayers alone was responsible for a potential minimum revenue loss of \$100 million per year.<sup>4</sup>

Although it is unlikely that the problem of undeliverable mail can be totally eliminated, the IRS has an obligation to taxpayers to make every effort to have current and correct addresses on file to ensure the accurate and timely delivery of any mailing, whether it is a Notice of Deficiency or a

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<sup>1</sup> IRC § 6212 (b) (1).

<sup>2</sup> IRC § 6212 (b) (1) was modified in January 2001, and the definition of "last known address" now permits the use of addresses obtained from the United States Postal Service (USPS) National Change of Address (NCOA) File. The NCOA File contains change of address information supplied by individuals and businesses to the USPS on a Change of Address Order (Form 3575).

<sup>3</sup> *Processing Taxpayer Correspondence at Service Centers* (Reference Number 014707, dated August 28, 1991); *The Service's Handling of Undelivered Mail* (Reference Number 043904, dated July 7, 1994).

<sup>4</sup> *Changes Needed to Reduce Volume and Improve Processing of Undeliverable Mail*, (GAO/GGD-95-44, dated December 1994).

## Improvements in Recording Third Party Addresses From Tax Returns Will Reduce Undeliverable Business Mail

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refund. Despite numerous steps taken by the IRS to reduce the volume of undeliverable mail, the National Returned/Undelivered Mail Report stated that the ten IRS campuses received over 8 million pieces of returned/undelivered mail during Fiscal Year (FY) 2000.<sup>5</sup>

Many of the over 765,000 taxpayers that move every week do not inform the IRS of their moves.<sup>6</sup> In order to properly administer tax law and reduce the volume of undeliverable mail, the IRS has continually investigated methods by which they could obtain the most current address of a taxpayer.

Most recently, Revenue Procedure 90-18 was revised in January 2001 to allow direct updating of taxpayers' addresses on the IRS' Masterfile<sup>7</sup> using third-party address information, specifically the United States Postal Service (USPS) National Change of Address (NCOA) File.<sup>8</sup> This audit report does not render an opinion as to the cost savings and increased customer service this step may have produced because of the limited time the IRS has been using the system.

This audit was performed in accordance with *Government Auditing Standards* and was conducted at the IRS National Headquarters and the Brookhaven IRS Campus from September 2000 through June 2001. Data and cases reviewed were selected from all Business Masterfile (BMF) returns processed nationwide in 1998, 1999, and 2000.

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<sup>5</sup> While we relied on the figures contained in the National Returned/Undelivered Mail Report to provide an understanding of the minimum level of undeliverable mail, we believe that it underestimated the actual undeliverable mail figures.

<sup>6</sup> *Updating Addresses in Masterfile* (IRS Multimedia Production Division, December 1997).

<sup>7</sup> The Masterfile is the IRS' main computer system, containing taxpayer accounts.

<sup>8</sup> 26 CFR SEC 301.6212-2 (revision effective January 29, 2001). The change in regulation permitting the use of the NCOA File to update taxpayer address information only affects those taxpayers that submit a Change of Address (Form 3575) order to the USPS.

## Improvements in Recording Third Party Addresses From Tax Returns Will Reduce Undeliverable Business Mail

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Details of our objectives, scope, and methodology are presented in Appendix I. Major contributors to this report are listed in Appendix II.

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### **The Internal Revenue Service Does Not Always Accurately Process Third Party Tax Addresses to the Business Masterfile**

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The IRS is trying to make it easier and less burdensome for taxpayers to meet their responsibilities and to increase public confidence that taxes are being collected fairly and efficiently. Using the NCOA File to update the majority of taxpayer addresses will most likely reduce taxpayer burden and result in increased customer service and significant cost savings to the government.

However, certain limitations associated with using the NCOA File to update Masterfile addresses were noted in the 1997 IRS Multimedia Production Division's report *Updating Addresses in Masterfile*. One of the limitations described in this report occurs when a taxpayer uses a third party tax address.<sup>9</sup> This includes any taxpayer that provided "in care of" information, i.e., a return preparer, accountant, relative, fiduciary, or other data such as trade and partner names. The report concluded that the IRS could not rely on the NCOA File to update the Masterfile address of accounts with third party tax addresses.

The Internal Revenue Manual (IRM) requires the IRS to update a taxpayer's address on the BMF when the taxpayer provides new address information on a tax return, including changes to third party tax addresses.<sup>10</sup> Based on the results of our review, the IRS needs to take additional measures to ensure the accuracy and reliability of such taxpayer information processed to the BMF from both paper and electronically filed business returns.

In 1998, 1999, and 2000, the IRS updated address information for over 7.8 million business taxpayers<sup>11</sup> during the processing of all paper and electronically filed business returns. We determined that 2.3 million of these accounts

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<sup>9</sup> A third party tax address refers to the name *and* address of a third party. This is also referred to by the IRS as a "special" tax address.

<sup>10</sup> IRM 3.11.14.12.3(1); IRM 3.24.37.8.

<sup>11</sup> These included all address changes, whether taxpayers moved or there were changes to third party tax addresses.

## Improvements in Recording Third Party Addresses From Tax Returns Will Reduce Undeliverable Business Mail

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already had third party tax addresses on the BMF before the returns were processed. The other 5.5 million accounts did not have third party tax addresses on the BMF before the returns were processed.

We selected a statistically valid sample from each type of account described above.<sup>12</sup> We found that when tax returns contained changes to prior third party tax addresses, or used third party tax addresses for the first time, the names of the third parties were either not changed or not input to the Masterfile during the processing of the returns.<sup>13</sup> Only the street addresses, cities, states, and zip codes for the third party tax addresses were input to the Masterfile. As a result, undeliverable addresses were created on the IRS Masterfile.

In our sample:

- 118 (48 percent) of the 244 accounts that already had third party tax addresses on the BMF did not match the third party tax addresses that taxpayers had on their current returns. IRS address updating created undeliverable addresses on the BMF for 39 of these 118 accounts because the updated accounts reflected the names of the prior third parties and the addresses of the new third parties.
- 19 (8 percent) of the 228 accounts that did not previously have third party tax addresses on the BMF did not match the third party tax addresses that taxpayers had on their current returns. IRS address updating created undeliverable addresses for 8 of these 19 accounts because the updated accounts reflected the addresses of the third parties, but not the names of the

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<sup>12</sup> We selected a sample of 244 accounts that already reflected third party tax addresses on the BMF and a sample of 228 accounts that did not already reflect third party tax addresses on the BMF.

<sup>13</sup> We estimated that 1,565,369 (20 percent) of the 7,807,722 returns were processed incorrectly (Appendix IV). The third party tax addresses on returns did not match the BMF after the returns were processed.

## Improvements in Recording Third Party Addresses From Tax Returns Will Reduce Undeliverable Business Mail

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third parties.<sup>14</sup>

- The IRS sent 7 refunds totaling \$5,508, and 8 notices (2 of which included penalties totaling \$4,508), to undeliverable addresses.

We performed an in-depth analysis of all sampled accounts to determine why the Electronic Filing System (ELF)<sup>15</sup> and the Integrated Submission and Remittance Processing (ISRP) System<sup>16</sup> did not ensure accurate processing of third party tax addresses for business returns. We found that while both processing systems updated the addresses of the new third parties as shown on the taxpayers' returns, neither system provided for the processing of the names of the new third parties to the IRS' Masterfile.

As a result, after the electronic and paper returns were processed, some of the BMF accounts reflected the names of the third party listed on the taxpayers' prior year returns,<sup>17</sup> but with the addresses of the new third party listed on the taxpayers' current returns. In other instances, no third party names appeared on the BMF accounts at all, even though listed on the taxpayers' returns.

### **The ISRP System limits updating capability**

If taxpayers did not check the box on their returns indicating a change to their third party tax addresses, but manually inserted the names and addresses,<sup>18</sup> the accounts were not updated by the Code and Edit function. The returns were processed through the ISRP System where the following occurred:

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<sup>14</sup> While the addresses on the BMF for the remaining 90 accounts did not reflect the third party tax address information exactly as shown on taxpayers' returns, there was at least the potential that any mail sent to these addresses could be delivered to the taxpayers.

<sup>15</sup> The IRS' Electronic Filing System processes electronically filed tax returns.

<sup>16</sup> The IRS' Integrated Submission and Remittance Processing System processes returns submitted on paper.

<sup>17</sup> Taxpayers' "in care of" information could be from a prior year return or from the Applications for Employer Tax Identification Number (Form SS-4).

<sup>18</sup> The IRS refers to this as a "long entity."



## **Improvements in Recording Third Party Addresses From Tax Returns Will Reduce Undeliverable Business Mail**

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- The data input screen allowed operators to update the streets, towns, states, and zip codes for the new third party tax addresses, but not the new “in care of” names listed on the taxpayers’ returns.
- The screen visible to the data entry operators did not exhibit any prior “in care of” names currently on the taxpayers’ BMF accounts.
- The operators were given no indication that the third party tax addresses needed additional perfection to be correct.
- The ISRP System did not offer the operators the opportunity or capability to update this information for BMF accounts.<sup>19</sup>

### **The ELF System does not provide updating capability**

IRS processing did not update the “in care of” names in third party tax addresses on business returns that were filed electronically. It did not matter whether boxes on the returns indicating changes to third party tax addresses were checked or not.

### **Third party tax addresses were only processed correctly if a business return had certain characteristics**

The only time third party tax addresses were processed correctly was when a taxpayer filed a paper business return and checked a box indicating a change to a third party tax address, such as a fiduciary, and/or inserted manual changes to a pre-printed label/return.

The IRM contained processing instructions for returns with such characteristics:

- The Code and Edit function at IRS campuses updated the BMF to reflect the new “in care of” names listed by taxpayers on their current returns.

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<sup>19</sup> The same is not true during the processing of individual income tax returns and certain other BMF forms. Data entry operators have the systemic capability to perform on-line changes to both the names and addresses of individual taxpayers updating third party tax addresses.

## Improvements in Recording Third Party Addresses From Tax Returns Will Reduce Undeliverable Business Mail

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- The returns were then processed through the ISRP System, where the data entry operators updated the account addresses.

Only after this two-step process did the accounts appear on the IRS' Masterfile correctly, i.e., reflected the new "in care of" name and address information as shown on taxpayers' returns. Only one of the accounts selected in our sample was processed in this manner.

### **Effects of inaccurate third party tax addresses on the BMF**

The IRS relies on the Masterfile for addresses when contacting and issuing notices and refunds to business taxpayers. When the BMF does not reflect the taxpayers' most current and complete addresses, including third party tax addresses:

- Refunds and notices, including Notices of Deficiency, sent by the IRS to taxpayers may be returned as undeliverable.
- Undue burden is placed on taxpayers who do not receive their refunds and notices, especially if they are not notified of significant IRS activity.
- Tax packages, labels, and any pre-printed forms sent to taxpayers are inaccurate.
- Interest and certain penalties charged by the IRS may be suspended because the IRS did not notify taxpayers at their "last known address" that a payment was overdue.<sup>20</sup>
- Disclosure violations may occur as taxpayers' information is mailed to individuals other than those designated by taxpayers in their third party tax addresses.

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<sup>20</sup> Under the provisions of the IRS Restructuring and Reform Act of 1998 (Pub. L. No. 105-206, 112 Stat. 685), IRC § 6404 (g) (1), interest and certain penalties charged by the IRS would be suspended because the IRS did not notify taxpayers at their "last known address" that a payment was overdue.

## **Improvements in Recording Third Party Addresses From Tax Returns Will Reduce Undeliverable Business Mail**

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- The processing and handling of undeliverable mail increases the cost of IRS operations.
- Due process may not be observed in IRS' collection actions, including liens and levies, thus violating taxpayer rights.<sup>21</sup>
- The IRS' accounts receivable inventory is also affected to the extent that collection bills are not delivered to taxpayers for timely collection.
- Taxpayers' compliance and general perceptions of the IRS may be adversely affected.

In addition, even if mail that was sent to an inaccurate third party tax address is eventually forwarded to the correct individual or entity, the delay in delivery may cause a taxpayer's reply and a subsequent IRS letter to cross in the mail. Unraveling such situations can be time-consuming for both the taxpayers and the IRS. Management was not aware of the problem because the IRS has no reliable method to collect data on undeliverable mail and to identify trends.

### **Recommendations**

1. The Commissioner, Small Business/Self-Employed Division, should ensure that the ISRP System is updated to provide operators with the opportunity and capability to make on-line changes to both the names and addresses contained in taxpayers' third party tax addresses during the processing of business returns.
2. The Director, Electronic Tax Administration, Wage and Investment Division, should ensure that the ELF System can process electronically filed business returns with taxpayers' correct and complete third party tax addresses.

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<sup>21</sup> The IRS Masterfile addresses for the affected accounts were not the taxpayers' last known addresses. Despite being notified of a change of address, the IRS will continue to send notices and refunds to the Masterfile addresses, even though previous mail sent to those addresses was returned as undeliverable. When the IRS does not fulfill the legal requirements for notifying taxpayers about their tax situations at their last known address, taxpayers' rights may be violated in some instances.

## Improvements in Recording Third Party Addresses From Tax Returns Will Reduce Undeliverable Business Mail

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### **A Consistent Policy Regarding the Notification of a Change of Fiduciary or Fiduciary's Address Is Needed**

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Management's Response: Management's response was due on September 20, 2001. As of September 21, 2001, management had not responded to the draft report.

United States Fiduciary Income Tax Returns for Estates and Trusts (Forms 1041) are primarily filed with third party tax addresses of fiduciaries.<sup>22</sup> Changes to taxpayers' third party tax addresses involving the fiduciaries and their addresses on the BMF were subject to different requirements depending on which IRS functions or systems processed the information. This has resulted in undeliverable mail for some estate and trust accounts.

The Code of Federal Regulations (CFR)<sup>23</sup> requires that every person acting for another person in a fiduciary capacity must give notice in writing to the District Director for the district where the return of the person for whom he is acting as fiduciary is filed.<sup>24</sup> The CFR also states that when the fiduciary capacity has terminated, the fiduciary, in order to be relieved of any further duty or liability, must file a written notice of termination which states the name and address of the new fiduciary, if any.

The IRC and the CFR do not specifically require that a Notification of Fiduciary Relationship (Form 56) be submitted to notify the IRS of the creation or termination of a fiduciary relationship. The general instructions for Form 56 state that it *may* be used to notify the IRS of the creation or termination of a fiduciary relationship.

In addition, Form 1041 and the corresponding instructions do not state that a fiduciary must file a Form 56 or notify the IRS in any way when there is a change in fiduciary or the fiduciary's address. Although Form 56 is listed in the

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<sup>22</sup> A fiduciary is defined in IRC § 7701(a)(6) as a guardian, trustee, executor, administrator, receiver, conservator, or anyone that holds something in trust for another.

<sup>23</sup> 26 CFR § 301.6903-1. This section of the code reflects the old IRS structure and needs revision to reflect the IRS' current organization structure.

<sup>24</sup> There is no restriction concerning the information a fiduciary can receive for the entity for whom he/she is acting. A fiduciary assumes the powers, rights, duties, and privileges of the taxpayer, until notice is given that the fiduciary capacity has terminated.

## Improvements in Recording Third Party Addresses From Tax Returns Will Reduce Undeliverable Business Mail

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instructions for Form 1041 under “other forms that may be required when a Form 1041 is filed,” the instructions do not explain when it is to be used.

Under another section in the Form 1041 instructions, entitled “Initial Return, Amended Return, Final Return, or Changes in Fiduciary’s Name or Address,” there is no mention of changing the fiduciary’s name or address in that section of the instructions. The subject appears to be omitted from the Form 1041 instructions entirely.

### **Changes to fiduciary names and addresses were subject to different requirements depending on which IRS functions or systems processed the returns**

- The Entity function at IRS campuses processed Forms 56 and updated fiduciary names and addresses on the BMF. When Forms 1041 were sent to the Entity function for another issue during returns processing,<sup>25</sup> IRS staff contacted fiduciaries and required that they file Forms 56 before updating information on the BMF. However, rather than wait for the Forms 56 to be sent by the fiduciaries, the Entity function sent the Forms 1041 to the Data Input function<sup>26</sup> for processing. As a result, the Forms 1041 were processed with the names of the old fiduciaries and the addresses of the new fiduciaries, creating undeliverable addresses on the BMF.
- The Code and Edit function did not require Forms 56 to be filed and did not correspond with fiduciaries during the processing of Forms 1041. Tax examiners changed the fiduciary names and addresses if the boxes on the Forms 1041 were checked indicating a change of fiduciary/address and/or if manual changes were inserted to pre-printed labels/returns.
- The ISRP System operators updated the addresses on the account to that of the new fiduciaries, but not the new

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<sup>25</sup> A mismatch between a Taxpayer Identification Number used on a return and the name on the account in the IRS Masterfile would be an example of why a Form 1041 would be sent to the Entity function during processing.

<sup>26</sup> The Data Input function is part of the ISRP System.

## **Improvements in Recording Third Party Addresses From Tax Returns Will Reduce Undeliverable Business Mail**

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“in care of” names, when the fiduciary names and addresses were entered manually on Forms 1041 and the box was not checked indicating a change. No Forms 56 were required before these updates were performed.<sup>27</sup>

- The ELF System updated the BMF to reflect the new fiduciary addresses, whether the boxes on the Forms 1041 were checked or not, but not the third party names of the new fiduciaries. No Forms 56 were requested.

### **Review of notices sent to estate and trust accounts**

We determined that 71 (52 percent) of the 137 accounts in our samples that did not reflect the third party tax addresses as shown on taxpayers’ returns were for estate and trust accounts. Since the estate and trust accounts made up more than half of the error cases in our samples, we performed a limited study of 481 notices involving Forms 1041 that were mailed to 456 such accounts from the Brookhaven IRS Campus during a two week period in Tax Year 2000.

The notices mailed to 187 (41 percent) of the 456 taxpayers in this study did not reflect the third party tax addresses as shown on the related tax returns. Mail sent to 81 (43 percent) of these 187 taxpayers would most likely be returned as undeliverable, including balance due notices totaling \$211,483 and refunds of \$82,197.

### **Hypothetical case example**

Appendix IV illustrates a hypothetical case example of what would have happened when Forms 1041 for 1998 and 1999 were submitted to the IRS for a trust account and the name and address of the tax preparer changed from one year to the next.

Assume the 1998 Form 1041 indicated a third party tax address for the John Taxpayer Residuary Trust as “c/o” Jack

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<sup>27</sup> The taxpayers’ fiduciaries and their addresses may appear as the “in care of” names and addresses on estate and trust accounts. However, the IRS’ procedures require that if a bank is involved, the bank’s name and address be listed as the “in care of” on the IRS account. If there is also an individual named as the fiduciary, that name is then shown on another line in the address of the IRS database.

## **Improvements in Recording Third Party Addresses From Tax Returns Will Reduce Undeliverable Business Mail**

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Preparer and listed his address as 456 Taxation Blvd., Government City, Anystate. Joe Relative was named as the trustee. We assume that this was the information provided when this account was established with the IRS.

The 1999 Form 1041 sent to an IRS campus reflected a change in the third party tax address. On the 1999 return, Joan Preparer was listed as the “c/o” name and her address was listed as 123 Blank St., Large City, Anystate. Although there were no boxes checked in section F of the Form 1041 indicating a change to a fiduciary or fiduciary’s address, there was a change to the third party tax address for this account.

We assume that in this situation, the name and address information was entered manually on the 1999 return and no IRS label was used. This return would have been processed through the ISRP System. The data entry operator would have updated the address on the BMF to 123 Blank St., Large City, Anystate, as it appeared on the 1999 Form, but would have made no change to the third party name, the “in care of” name, on the BMF.

If we assume that there was a balance due on this account, the IRS would have sent a computer-generated notice to the John Taxpayer Residuary Trust account’s address as it now appeared on the BMF. The notice would have been sent with the correct trust and trustee information, but the third party tax address reflected the name of Jack Preparer with the address of Joan Preparer.

As a result, the USPS would not have been able to deliver this notice. Since Jack Preparer did not reside at the address listed on the notice, nor did Joe Relative, the Trustee, the notice would have been returned to the IRS as undeliverable. The third party tax address on the BMF for this account would not have reflected what was on the taxpayer’s 1998 or 1999 returns, but would now be a hybrid of both and thus an undeliverable address.

### **Recommendations**

The Commissioner, Small Business/Self-Employed Division, the Directors of Electronic Tax Administration

## **Improvements in Recording Third Party Addresses From Tax Returns Will Reduce Undeliverable Business Mail**

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and Tax Forms and Publications, Wage and Investment Division, should:

3. Determine what the returns processing functions and systems shall recognize as sufficient legal notification for fiduciary name and address changes and ensure that it complies with tax law.
4. Ensure that the procedures to update changes to fiduciaries' names and addresses are consistent throughout all IRS return processing functions and systems so taxpayers are treated equitably.
5. Ensure that all tax forms, instructions and publications clearly explain the IRS process and requirements for creating and terminating fiduciary relationships.

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### **Tax Forms, Instructions, and Publications Do Not Clearly Explain How to Inform the Internal Revenue Service of Third Party Tax Addresses**

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The responsibility is placed upon taxpayers to notify the IRS of third party tax addresses and changes to such information. Since this is beyond the scope of the NCOA updates to the IRS' database, the IRS must continue to rely upon these taxpayers to provide their most current information.

According to the business case advocating the use of the NCOA File to update Masterfile addresses, it is the responsibility of the IRS to ensure that taxpayers understand that they must inform the IRS of third party tax addresses. Increasing taxpayers' awareness of the need to provide such address changes to the IRS is fundamental to developing a strategy to minimize undeliverable mail.

However, IRS tax forms, instructions and publications do not provide taxpayers, fiduciaries, and tax practitioners with enough information to understand what is necessary to notify/change third party tax addresses on the IRS' Masterfile. Insufficient information, combined with the absence of detailed examples depicting how taxpayers should record third party tax addresses on tax forms, has led to inaccuracies on the BMF.

Most tax forms contain a special box for taxpayers to check when there are address changes, or the form itself requests that taxpayers enter any address changes directly on the IRS-provided labels. While this may be sufficient for most



## Improvements in Recording Third Party Addresses From Tax Returns Will Reduce Undeliverable Business Mail

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taxpayers, it does not appear to take into account the needs of business taxpayers with third party tax addresses.

- There are no specific spaces or lines on tax forms for the entry of third party tax addresses such as “in care of” name lines.<sup>28</sup>
- Due to limited space on the tax forms and labels, business taxpayers sometimes omit crucial pieces of their third party tax addresses that are necessary for the USPS to deliver mail to those addresses.
- When taxpayers enter third party tax addresses on tax forms, they are not required to identify, nor is there space for them to do so, whose mailing addresses they are listing on their returns. Taxpayers enter third party tax addresses, listing company presidents, representatives, fiduciaries or partners, as the “in care of” names. It is not always clear to the IRS whether the addresses listed on the returns are the mailing addresses of taxpayers or that of the presidents, representatives, fiduciaries or partners.

As a result, confusion is created on the part of both taxpayers and the IRS processing functions, and inaccurate information may be processed to the BMF. Taxpayers may not know whether or not to check the change of address box when it is not the taxpayers that have moved, but the “in care of” named on their accounts, such as their accountants. Notices and refunds issued by the IRS to those accounts may reflect undeliverable addresses.

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<sup>28</sup> The same is true of the IRS form Change of Address (Form 8822), which is used by taxpayers to notify the IRS of a change of address.

## Improvements in Recording Third Party Addresses From Tax Returns Will Reduce Undeliverable Business Mail

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### Recommendations

The Commissioner, Small Business/Self-Employed Division, should:

6. Explore the possibility of including an “in care of” line on business returns and the ability to indicate whose mailing address is listed on the return.
7. Ensure that IRS forms, instructions and publications clearly describe how taxpayers, preparers, fiduciaries, etc., should enter third party tax addresses on tax returns.

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### **The Method Used to Obtain Undeliverable Mail Information Is Not Reliable and Cannot Be Used to Help Identify Trends**

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Under the provisions of the IRS Restructuring and Reform Act of 1998 (RRA 98),<sup>29</sup> the IRS was directed to take steps to track and reduce the volume of undeliverable mail in an effort to ensure that the Masterfile contained taxpayers’ most current addresses. However, the IRS does not have a reliable method for tracking undeliverable mail. As a result, the IRS is unable to determine the composition of its undeliverable mail or identify trends.

The IRS began using the Service Center Automatic Mail Processing System (SCAMPS) in 1999 at its 10 submission processing sites.<sup>30</sup> The SCAMPS is a system of mail sorters that processes millions of pieces of incoming and outgoing mail and has the ability to generate various informational reports.

The IRS Multimedia Production Division has the responsibility to collect the undeliverable mail figures on a monthly basis from the 10 campuses and report the statistics in the National Returned/Undelivered Mail Report. While we believed that we could rely on the figures contained in the National Returned/Undelivered Mail Report to provide an understanding of the minimum level of undeliverable mail, in our opinion it underestimated the actual undeliverable mail figures because:

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<sup>29</sup> Pub. L. No. 105-206, 112 Stat. 685.

<sup>30</sup> SCAMPS replaced the Composite Mail Processing System.

## Improvements in Recording Third Party Addresses From Tax Returns Will Reduce Undeliverable Business Mail

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- The report for Fiscal Year (FY) 2000 did not contain comprehensive monthly totals for all ten sites.
- The FY 1999 report was incomplete, so the year to year comparisons were also inaccurate.
- There were unexplained disparities with undeliverable mail figures compiled in the Extracting and Sorting functions at the same processing sites.<sup>31</sup>

Currently the SCAMPS does not appear to be able to be used as an effective management tool because the USPS puts a black line through the bar coding on the IRS' undeliverable mail envelopes.<sup>32</sup> As a result, the system cannot read and generate reports using the important data contained in the IRS bar codes. The SCAMPS counts the number of pieces of undeliverable mail, but it cannot:

- Distinguish between mail associated with individuals as opposed to business taxpayers.
- Identify what areas within the IRS generated the undeliverable mail.
- Sort the undeliverable mail into high and low priority.<sup>33</sup>
- Read the Social Security Numbers or Employer Identification Numbers, types of notices or tax periods covered by the notices.

As such, IRS management cannot use the SCAMPS to assist them in identifying specific problems and trends. Furthermore, the Extracting and Sorting function has to perform the sorting work the SCAMPS is not able to do.

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<sup>31</sup> Since the SCAMPS cannot count large or fat mail pieces, we expected some discrepancies. However, no one could sufficiently explain the nature of the discrepancies that we identified.

<sup>32</sup> For example, see the IRS envelope in the Hypothetical Case Example, Appendix V.

<sup>33</sup> A priority status is either "high" or "low." A "high" priority means that any returned mail is retained and routed to the originating function, where efforts are made to find the taxpayer's current address. A "low" priority means that any returned mail piece is destroyed as classified waste.

## **Improvements in Recording Third Party Addresses From Tax Returns Will Reduce Undeliverable Business Mail**

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### **Recommendations**

The Commissioner, Small Business/Self-Employed Division, should explore alternative ways to measure undeliverable mail and identify trends. Specifically, he should:

8. Explore the logic and reason behind the USPS' procedure of putting black lines through the IRS bar codes on the undeliverable mail envelopes. If the USPS cannot provide a reasonable explanation for this procedure then the IRS should request that it be discontinued.
9. Ensure that undeliverable mail figures are recorded consistently and compare the figures to statistics compiled by the Extracting and Sorting function.

## Improvements in Recording Third Party Addresses From Tax Returns Will Reduce Undeliverable Business Mail

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### Appendix I

#### Detailed Objectives, Scope, and Methodology

The overall objectives of this review were to determine if measures taken by the Internal Revenue Service (IRS) would result in a reduction of undeliverable mail to business taxpayers and if additional steps could be taken to achieve more effective and efficient updating of business taxpayers' address information. Sampling methodology, selection technique, estimates and projections are covered in detail in Appendix III.

In order to accomplish our objectives, we:

- I. Determined what measures the IRS took, or planned to take in the near future, to reduce the volume of undeliverable business mail.
  - A. Reviewed prior reports and studies on undeliverable mail and determined if the IRS implemented or planned to implement recommended corrective actions in the near future.
  - B. Determined if the IRS could realistically calculate the current volume and makeup of the IRS campuses' undeliverable business mail.
  - C. Based on all of the above, determined if the IRS could take additional measures to reduce the volume of undeliverable business mail and/or to process this mail in a more effective and efficient manner.
- II. Determined if establishing business entities on the IRS' Masterfile<sup>1</sup> or updating entity information during any subsequent return processing had an effect on the volume of undeliverable mail.
  - A. Held discussions with staff members and managers associated with the Multimedia Production Division, National Change of Address (NCOA) Implementation Team, Electronic Tax Administration, and Business Masterfile (BMF) Entity and Submissions Processing in the IRS National Headquarters and IRS campuses to identify any issues related to entity establishment and undeliverable mail.
  - B. Reviewed IRS forms, publications, notices, processing instructions, Internal Revenue Manuals, and Requests for Information Services to determine the guidelines for entity establishment and updating of address information during subsequent return processing.
  - C. Reviewed information obtained on NCOA address match criteria to understand how the process works to identify the most current addresses for business taxpayers.

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<sup>1</sup> The Masterfile is the IRS' main computer system, containing taxpayer accounts.

## **Improvements in Recording Third Party Addresses From Tax Returns Will Reduce Undeliverable Business Mail**

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- D. Reviewed samples of undeliverable mail, Application for Employer Tax Identification Number (Form SS-4), business returns, and outgoing notices from IRS campus sites and performed Integrated Data Retrieval System (IDRS)<sup>2</sup> research to identify any trends with respect to undeliverable mail.

We reviewed data extracted by the Treasury Inspector General for Tax Administration's Information Technology staff. Data extracts identified all business accounts (7.8 million) that had account addresses updated during the processing of returns in 1998, 1999, or 2000. With the concurrence of the IRS Statistics of Income (SOI) Division staff, we used attribute sampling to select 2 statistically valid samples from the 7.8 million accounts.<sup>3</sup> We used a computer software random number selection program to select the cases without bias. Each of the 7,807,722 accounts had an equal chance of selection under the parameters of this sampling plan and methodology.

We reviewed a total of 472 cases, which provided us with statistically valid samples at the 90 percent confidence level, with a desired precision of + or - 5 percent, and an expected error rate of 30 percent. A 5 percent missing document rate was also built into the sample sizes.

We defined an error case as an account where the address on the BMF did not match the address on the taxpayer's return and the variance was so great that any mail sent by the IRS to that address would most likely be returned as undeliverable. We defined a questionable case as an account where the address on the BMF did not exactly match the address on the taxpayer's return, but there was still the potential that mail sent by the IRS to that address would be deliverable.

We performed IDRS and account research on the selected accounts. Specifically, we:

1. Determined if the account addresses on the BMF matched the related tax returns and if use of the NCOA File would correct identified errors and result in more effective and efficient updating of taxpayer addresses and a reduction of undeliverable business mail.

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<sup>2</sup> The IDRS is the IRS' computer system capable of retrieving or updating stored information; it works in conjunction with the records of taxpayers' accounts.

<sup>3</sup> We identified 7,807,722 unique taxpayer accounts that met the criteria and divided them into 2 very distinct categories. The first category contained 2,351,878 accounts that already reflected third party tax addresses on the BMF; the other category contained 5,455,844 accounts that did not reflect third party tax addresses on the BMF.

## **Improvements in Recording Third Party Addresses From Tax Returns Will Reduce Undeliverable Business Mail**

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2. Used sample results for the cases that would not be corrected by the NCOA File updates to measure the cumulative effect on taxpayers in terms of the taxpayer burden created, the number of IRS notices that would be sent to incorrect addresses, and the cost to the IRS. We identified the error rate in each sample and projected to the total population for a 5-year period (1998 through 2002). We used actual figures for refunds and penalties as identified in the sample.

## **Improvements in Recording Third Party Addresses From Tax Returns Will Reduce Undeliverable Business Mail**

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### **Appendix II**

#### **Major Contributors to This Report**

Gordon Milbourn III, Assistant Inspector General for Audit (Small Business and Corporate Programs)

Richard J. Dagliolo, Director

Robert K. Irish, Audit Manager

Kathleen A. McFadden, Senior Auditor

Paul R. Baker, Auditor

Dolores M. Castoro, Auditor

Margaret F. Filippelli, Auditor



## **Improvements in Recording Third Party Addresses From Tax Returns Will Reduce Undeliverable Business Mail**

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### **Appendix III**

#### **Report Distribution List**

Commissioner N:C  
Deputy Commissioner N:DC  
Deputy Commissioner, Small Business/Self-Employed Division S  
Deputy Commissioner, Wage and Investment Division W  
Director of Communications, Small Business/Self-Employed Division S:COM  
Director, Compliance, Small Business/Self-Employed Division S:C  
Director, Customer Account Services, Small Business/Self-Employed Division SBSE:CAS  
Director, Electronic Tax Administration, Wage and Investment Division W:E  
Director of Internal/External Stakeholders, Small Business/Self-Employed Division S:C:CP:I  
Director, Tax Forms and Publications, Wage and Investment Division W:CAR:MP:FP  
Director, Taxpayer Education and Communication, Small Business/Self-Employed Division S:T  
Director, Legislative Affairs CL:LA  
Director, Office of Program Evaluation and Risk Analysis N:ADC:R:O  
Chief Counsel CC  
National Taxpayer Advocate TA  
Office of Management Controls N:CFO:F:M  
Audit Liaisons:  
    Commissioner, Small Business/Self-Employed Division S  
    Commissioner, Wage and Investment Division W

## Improvements in Recording Third Party Addresses From Tax Returns Will Reduce Undeliverable Business Mail

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### Appendix IV

#### Outcome Measures

This appendix presents detailed information on the measurable impact that our recommended corrective actions will have on tax administration. These benefits will be incorporated into our Semiannual Report to the Congress.

##### Type and Value of Outcome Measure:

- Increased Revenue - Actual; \$4,508 in penalties not collected because notices were sent to undeliverable addresses (see page 3).

##### Methodology Used to Measure the Reported Benefit:

We used the actual dollar amount of the penalties identified in our sample.

In the sample of accounts (244 cases) that already had third party tax addresses on the Business Masterfile (BMF)<sup>1</sup>, we determined that 48 percent of these accounts (118 cases) did not reflect the third party tax addresses as shown on the taxpayers' returns. When we analyzed these accounts, we identified an error rate of 33 percent (39 cases). Approximately 13 percent of the error cases were sent notices (5 notices), and 40 percent of these notices (2 notices) charged taxpayers penalties of \$4,508.

In the sample of accounts (228 cases) that did not have third party tax addresses on the BMF, we determined that 8 percent of these accounts (19 cases) did not reflect the third party tax addresses as shown on the taxpayers' returns. When we analyzed these accounts, we identified an error rate of 42 percent (8 cases). Approximately 38 percent of these error cases were sent notices (3); however, none involved penalties.

$$5 + 3 = 8 \text{ Notices}$$

\$4,508 in Penalties

##### Type and Value of Outcome Measure:

- Cost Savings - Funds put to better use - Potential; \$98,409 - cost to the IRS to pay the return mail fee charged by the United States Postal Service (USPS) for 196,817 undeliverable notices (see page 3).<sup>2</sup>

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<sup>1</sup> The Masterfile is the IRS' main computer system, containing taxpayer accounts.

<sup>2</sup> The USPS charges \$0.50 to return a piece of undeliverable mail to the IRS.

## **Improvements in Recording Third Party Addresses From Tax Returns Will Reduce Undeliverable Business Mail**

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### Methodology Used to Measure the Reported Benefit:

We used the error rates identified in each sample as described below, identified the number of notices sent out by the IRS to undeliverable addresses in our sample, and projected to a 5-year period (1998 through 2002). We estimated that the IRS paid a \$.50 return mail fee to the USPS for each notice that was sent to an undeliverable address. This did not include the cost of producing the notices or handling the undeliverable mail once it was returned to the IRS. We estimated that it would cost the IRS \$98,409 in return mail fees for 196,817 undeliverable notices.

In the sample of accounts (244 cases) that already had third party tax addresses on the BMF, we determined that 48 percent of these accounts (118 cases) did not reflect the third party tax addresses as shown on the taxpayers' returns. When we analyzed these accounts, we identified an error rate of 33 percent (39 cases). Approximately 13 percent of the error cases were sent notices (5 notices). When we projected the results of the sample to the population, we estimated that these error cases were sent an estimated 80,716 notices.

$$620,896 \times .13 = 80,716 \text{ Notices}$$

In the sample of accounts (228 cases) that did not have third party tax addresses on the BMF, we determined that 8 percent of these accounts (19 cases) did not reflect the third party tax addresses as shown on the taxpayers' returns. When we analyzed these accounts, we identified an error rate of 42 percent (8 cases). Approximately 38 percent of these error cases were sent notices (3 notices). When we projected the results of the sample to the population, we estimated that these error cases were sent an estimated 116,101 notices.

$$305,529 \times .38 = 116,101$$

$$80,716 + 116,101 = 196,817 \times \$0.50 = \$98,409$$

### Type and Value of Outcome Measure:

- Taxpayer Rights and Entitlements - Actual; \$5,508 in taxpayers' refunds mailed to undeliverable addresses (see page 3).

### Methodology Used to Measure the Reported Benefit:

We used the actual total of the 7 refunds identified in our sample to arrive at this amount.

In the sample of accounts (244 cases) that already had third party tax addresses on the BMF, we determined that 48 percent of these accounts (118 cases) did not reflect the third party tax addresses as shown on the taxpayers' returns. When we analyzed these accounts, we identified an undeliverable error rate of 33 percent (39 cases). Approximately 10 percent of these error cases (4 cases) were sent refunds totaling \$4,606.

In the sample of accounts (228 cases) that did not have third party tax addresses on the BMF, we determined that 8 percent of these accounts (19 cases) did not reflect the third party tax addresses as shown on the taxpayers' returns. When we analyzed these accounts, we identified an error

## **Improvements in Recording Third Party Addresses From Tax Returns Will Reduce Undeliverable Business Mail**

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rate of 42 percent (8 cases). Approximately 38 percent of these error cases (3 cases) were sent refunds totaling \$902.

$$4 + 3 = 7$$

$$\$4,606 + \$902 = \$5,508$$

### Type and Value of Outcome Measure:

- Taxpayer Rights and Entitlements - Potential; 926,425 taxpayer accounts impacted (see page 3).

### Methodology Used to Measure the Reported Benefit (Taxpayer Accounts Impacted):

To arrive at the number of taxpayer accounts impacted (926,425), we used the error rates identified in each sample as described below, identified the number of accounts on the BMF with undeliverable addresses, and projected over a 5-year period (1998 through 2002). We estimated that between the two categories, 926,425 accounts would have undeliverable addresses on the BMF. Any mail sent by the IRS to these taxpayers would most likely be returned as undeliverable.

In the sample of accounts (244 cases) that already had third party tax addresses on the BMF, we determined that 48 percent of these accounts (118 cases) did not reflect the third party tax addresses as shown on the taxpayers' returns. When we analyzed these accounts, we identified an error rate of 33 percent (39 cases). When we projected these results to the population, we estimated that 620,896 accounts would have addresses on the BMF that would be undeliverable.

$$2,351,878 \times .48 = 1,128,901 \times .33 = 372,538 \text{ (number of accounts 1998, 1999, and 2000)}$$

$$372,538 / 3 = 124,179 \times 2 = 248,358 \text{ (number of accounts 2001 and 2002)}$$

$$372,538 + 248,358 = 620,896 \text{ (number of taxpayer accounts impacted)}$$

In the sample of accounts (228 cases) that did not have third party tax addresses on the BMF, we determined that 8 percent of these accounts (19 cases) did not reflect the third party tax addresses as shown on the taxpayers' returns. When we analyzed these accounts, we identified an error rate of 42 percent (8 cases). When we projected these results to the population, we estimated that 305,529 accounts would have addresses on the BMF that would be undeliverable.

$$5,455,844 \times .08 = 436,468 \times .42 = 183,317 \text{ (number of accounts 1998, 1999, and 2000)}$$

$$183,317 / 3 = 61,106 \times 2 = 122,212 \text{ (number of accounts 2001 and 2002)}$$

$$183,317 + 122,212 = 305,529 \text{ (number of taxpayer accounts impacted)}$$

$$620,896 + 305,529 = 926,425 \text{ (5-year projection of taxpayer accounts impacted)}$$

$$1,128,901 + 436,468 = 1,565,369 \text{ Questionable and Error Cases - The BMF does not reflect what is on the tax return; } 1,565,369 / 7,807,722 = 20 \text{ Percent}$$

# Improvements in Recording Third Party Addresses From Tax Returns Will Reduce Undeliverable Business Mail

## Appendix V

### Hypothetical Case Example

Form <b>1041</b> U.S. Income Tax Return for Estates and Trusts <b>1998</b>		OMB No. 1545-0092
For calendar year 1998 or fiscal year beginning 1998, and ending 19		
<b>A</b> Type of entity: <input type="checkbox"/> Decedent's estate <input checked="" type="checkbox"/> Simple trust <input type="checkbox"/> Complex trust <input type="checkbox"/> Grantor type trust <input type="checkbox"/> Bankruptcy estate—Ch. 7 <input type="checkbox"/> Bankruptcy estate—Ch. 11 <input type="checkbox"/> Pooled income fund		<b>C</b> Employer identification number  <b>D</b> Date entity created  
<b>B</b> Name of estate or trust (if a grantor type trust, see page 8 of the instructions.) <b>JOHN TAXPAYER RESIDUARY TRUST</b>		<b>E</b> Nonexempt charitable and split-interest trusts, check applicable boxes (see page 10 of the instructions): <input type="checkbox"/> Described in section 4947(a)(1) <input type="checkbox"/> Not a private foundation <input type="checkbox"/> Described in section 4947(a)(2)
<b>B</b> Name and title of fiduciary <b>JOE RELATIVE, Trustee</b> <b>1/2 JACK PREPARER 456 TAXATION BLVD.</b> <b>GOVERNMENT CITY, ANYSTATE, 22XXX</b>		
<b>F</b> Check applicable boxes: <input type="checkbox"/> Initial return <input type="checkbox"/> Final return <input type="checkbox"/> Amended return <input type="checkbox"/> Change in fiduciary's name <input type="checkbox"/> Change in fiduciary's address		<b>G</b> Pooled mortgage account (see page 10 of the instructions): <input type="checkbox"/> Bought <input type="checkbox"/> Sold Date:
<b>Income</b>	1 Interest income	1
	2 Ordinary dividends	2
	3 Business income or (loss) (attach Schedule C or C-EZ (Form 1040))	3
	4 Capital gain or (loss) (attach Schedule D (Form 1041))	4
	5 Rents, royalties, partnerships, other estates and trusts, etc. (attach Schedule E (Form 1040))	5
	6 Farm income or (loss) (attach Schedule F (Form 1040))	6
	7 Ordinary gain or (loss) (attach Form 4797)	7
	8 Other income. List type and amount	8
	9 Total income. Combine lines 1 through 8	9
<b>Deductions</b>	10 Interest. Check if Form 4952 is attached <input type="checkbox"/>	10
	11	
	12	
	13	
	14	
	15a	
	15b	
<b>Tax and Payments</b>	18 Income distribution deduction (from Schedule B, line 15) (attach Schedules K-1 (Form 1041))	18
	19 Estate tax deduction (including certain generation-skipping taxes) (attach computation)	19
	20 Exemption	20
	21 Total deductions. Add lines 18 through 20	21
	22 Taxable income. Subtract line 21 from line 17. If a loss, see page 14 of the instructions	22
	23 Total tax (from Schedule G, line 8)	23 2000 XX
	24a Payments: a 1998 estimated tax payments and amount applied from 1997 return	24a
	24b Estimated tax payments allocated to beneficiaries (from Form 1041-T)	24b
	24c Subtract line 24b from line 24a	24c
	24d Tax paid with extension of time to file: <input type="checkbox"/> Form 2758 <input type="checkbox"/> Form 8736 <input type="checkbox"/> Form 8800	24d
24e Federal income tax withheld. If any is from Form(s) 1099, check <input type="checkbox"/>	24e	
24f Other payments: f Form 2439 ; g Form 4136 ; Total	24f	
25 Total payments. Add lines 24c through 24e, and 24f	25	
26 Estimated tax penalty (see page 15 of the instructions)	26	
27 Tax due. If line 25 is smaller than the total of lines 23 and 26, enter amount owed	27 2000 XX	
28 Overpayment. If line 25 is larger than the total of lines 23 and 26, enter amount overpaid	28	
29 Amount of line 28 to be: a Credited to 1999 estimated tax ; b Refunded	29	
<b>Please Sign Here</b> Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete. Declaration of preparer (other than fiduciary) is based on all information of which preparer has any knowledge. <b>Joe Relative</b> Date <b>3/10/1999</b> Signature of fiduciary or officer representing fiduciary Date EIN of fiduciary if a financial institution (see page 5 of the instructions)		
<b>Paid Preparer's Use Only</b> Preparer's signature <b>Jack Preparer, PC</b> Date <b>3/15/1999</b> Check if self-employed <input type="checkbox"/> Preparer's social security no. Firm's name (or yours if self-employed) and address <b>JACK PREPARER 456 TAXATION BLVD</b> EIN <b>GOVERNMENT CITY, ANYSTATE</b> ZIP code <b>22XXX</b>		

For Paperwork Reduction Act Notice, see the separate instructions.

Cat. No. 11370H

Form **1041** (1998)

# Improvements in Recording Third Party Addresses From Tax Returns Will Reduce Undeliverable Business Mail

Department of the Treasury—Internal Revenue Service <b>Form 1041 U.S. Income Tax Return for Estates and Trusts</b>		<b>1999</b>		
For calendar year 1999 or fiscal year beginning _____, 1999, and ending _____		OMB No. 1545-0092		
<b>A</b> Type of entity: <input type="checkbox"/> Decedent's estate <input checked="" type="checkbox"/> Simple trust <input type="checkbox"/> Complex trust <input type="checkbox"/> Grantor type trust <input type="checkbox"/> Bankruptcy estate—Ch. 7 <input type="checkbox"/> Bankruptcy estate—Ch. 11 <input type="checkbox"/> Pooled income fund	<b>Name of estate or trust</b> (If a grantor type trust, see page 8 of the instructions.) <div style="font-size: 1.2em; font-family: cursive;">JOHN TAXPAYER, RESIDUARY TRUST</div>	<b>C</b> Employer identification number _____ <b>D</b> Date entity created _____		
<b>B</b> Number of Schedules K-1 attached (see instructions) _____		<b>E</b> Nonexempt charitable and split-interest trusts, check applicable boxes (see page 10 of the instructions): <input type="checkbox"/> Described in section 4947(a)(1) <input type="checkbox"/> Not a private foundation <input type="checkbox"/> Described in section 4947(a)(2)		
<b>Name and title of fiduciary</b> <div style="font-size: 1.2em; font-family: cursive;">JOE RELATIVE, TRUSTEE</div>				
<b>Number, street, and room or suite no.</b> (If a P.O. box, see page 8 of the instructions.) <div style="font-size: 1.2em; font-family: cursive;">96 JOAN PREPARER 123 BLANK ST.</div>				
<b>City or town, state, and ZIP code</b> <div style="font-size: 1.2em; font-family: cursive;">LARGE CITY, ANYSTATE 11XXX</div>				
<b>F</b> Check applicable boxes: <input type="checkbox"/> Initial return <input type="checkbox"/> Final return <input type="checkbox"/> Amended return <input type="checkbox"/> Change in fiduciary's name <input type="checkbox"/> Change in fiduciary's address				
<b>G</b> Pooled mortgage account (see page 10 of the instructions): <input type="checkbox"/> Bought <input type="checkbox"/> Sold    Date: _____				
Income	1	Interest income	1	
	2	Ordinary dividends	2	
	3	Business income or (loss) (attach Schedule C or C-EZ (Form 1040))	3	
	4	Capital gain or (loss) (attach Schedule D (Form 1041))	4	
	5	Rents, royalties, partnerships, other estates and trusts, etc. (attach Schedule E (Form 1040))	5	
	6	Farm income or (loss) (attach Schedule F (Form 1040))	6	
	7	Ordinary gain or (loss) (attach Form 4797)	7	
	8	Other income. List type and amount	8	
	9	Total income. Combine lines 1 through 8	9	
Deductions	10	Interest. Check if Form 4952 is attached <input type="checkbox"/>	10	
	11	Taxes	11	
	12	Fiduciary fees	12	
	13	Charitable deduction (from Schedule A, line 7)	13	
	14	Attorney, accountant, and return preparer fees	14	
	15	Other deductions	15	
When the 1999 Form 1041 was filed, the third party address changed. It was now "c/o" Joan Preparer at 123 Blank St., Large City.				
16	Exemption	16		
17	Total deductions. Add lines 18 through 20	17		
Tax and Payments	22	Taxable income. Subtract line 21 from line 17. If a loss, see page 14 of the instructions	22	
	23	Total tax (from Schedule G, line 8)	23	
	24	Payments: a 1999 estimated tax payments and amount applied from 1998 return	24a	
	b	Estimated tax payments allocated to beneficiaries (from Form 1041-T)	24b	
	c	Subtract line 24b from line 24a	24c	
	d	Tax paid with extension of time to file: <input type="checkbox"/> Form 2758 <input type="checkbox"/> Form 8736 <input type="checkbox"/> Form 8800	24d	
	e	Federal income tax withheld. If any is from Form(s) 1099, check <input type="checkbox"/>	24e	
	f	Other payments: f Form 2439 ; g Form 4136 ; Total	24f	
	25	Total payments. Add lines 24c through 24e, and 24h	25	
	26	Estimated tax penalty (see page 15 of the instructions)	26	
27	Tax due. If line 25 is smaller than the total of lines 23 and 26, enter amount owed	27		
28	Overpayment. If line 25 is larger than the total of lines 23 and 26, enter amount overpaid	28		
29	Amount of line 28 to be: a Credited to 2000 estimated tax ; b Refunded	29		
<b>Please Sign Here</b> Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete. Declaration of preparer (other than fiduciary) is based on all information of which preparer has any knowledge.				
Signature of fiduciary or officer representing fiduciary: <div style="font-size: 1.2em; font-family: cursive;">JOE RELATIVE</div>		Date: <div style="font-size: 1.2em; font-family: cursive;">3/1/2000</div>		
Preparer's signature: <div style="font-size: 1.2em; font-family: cursive;">JOAN PREPARER, PC</div>		Date: <div style="font-size: 1.2em; font-family: cursive;">3/7/2000</div>		
Firm's name (if self-employed): <div style="font-size: 1.2em; font-family: cursive;">JOAN PREPARER, PC</div>		Check if self-employed <input type="checkbox"/>		
Address: <div style="font-size: 1.2em; font-family: cursive;">123 BLANK ST. LARGE CITY, ANYSTATE 11XXX</div>		Preparer's SSN or PTIN: _____		

For Paperwork Reduction Act Notice, see the separate instructions.

Cat. No. 11370H

Form 1041 (1999)

## Improvements in Recording Third Party Addresses From Tax Returns Will Reduce Undeliverable Business Mail



Department of the Treasury  
Internal Revenue Service  
HOLTSVILLE NY 00501

Date of this notice: OCT. 23, 2000  
Taxpayer Identifying Number  
Form: 1041 Tax Period: DEC. 31, 1998

For assistance you may  
call us at:  
1-800-829-8815

John Taxpayer RESIDUARY TRUST UW  
Joe Relative, Trustee  
c/o Jack Preparer  
123 Blank St  
Large City, Anystate 11XXX

### REMINDER OF BALANCE DUE

OUR RECORDS SHOW THAT YOU HAVE NOT PAID THE FULL AMOUNT YOU OWE FOR TAX FORM 1041 FOR TAX PERIOD DEC. 31, 1998. TO AVOID ADDITIONAL PENALTIES AND INTEREST, PLEASE SEND US THE "AMOUNT YOU OWE NOW" SHOWN IN THE STATEMENT BELOW SO THAT WE RECEIVE IT BY NOV. 2, 2000.

### STATEMENT

AMOUNT UNPAID FROM PRIOR NOTICES	\$ 2000.00
PENALTY FOR LATE PAYMENT OF TAX	\$ .00
INTEREST ON LATE PAYMENT	\$ 254.00
AMOUNT YOU OWE NOW	\$ 2254.00

THE AMOUNT SHOWN AS UNPAID FROM PRIOR NOTICES SHOULD REFLECT ANY CREDITS AND PAYMENT TO YOUR ACCOUNT SINCE THE LAST NOTICE WE SENT YOU. THE PENALTY AND INTEREST LISTED ABOVE ARE BASED ON BOTH THE AMOUNT UNPAID FROM THE PRIOR NOTICE AND ANY AMOUNT YOU PAID LATE AFTER WE SENT YOU THE PRIOR NOTICE. WE'VE ATTACHED AN EXPLANATION OF THE PENALTY AND INTEREST CHARGES FOR YOUR INFORMATION.

IF YOU CANNOT PAY THE FULL AMOUNT YOU OWE, YOU MAY BEGIN MAKING PARTIAL PAYMENTS. MAKE THE PAYMENTS AS LARGE AS POSSIBLE SINCE WE WILL CONTINUE TO ADD PENALTY AND INTEREST UNTIL YOU PAY THE TOTAL AMOUNT YOU OWE.

IF YOU THINK WE MADE A MISTAKE, PLEASE CALL US AT THE NUMBER SHOWN ABOVE. WHEN YOU CALL, PLEASE HAVE YOUR PAYMENT INFORMATION AND A COPY OF YOUR TAX RETURN AVAILABLE. THIS INFORMATION WILL HELP US FIND ANY PAYMENT YOU MADE THAT WE HAVEN'T CREDITED TO YOUR ACCOUNT.

PLEASE WRITE YOUR TAXPAYER IDENTIFYING NUMBER ON YOUR CHECK OR MONEY ORDER AND MAKE IT PAYABLE TO THE UNITED STATES TREASURY. DETACH THE PAYMENT VOUCHER AT THE END OF THIS NOTICE AND MAIL IT WITH YOUR PAYMENT IN THE ENCLOSED ENVELOPE.

THANK YOU FOR YOUR COOPERATION.

The Notice sent by the IRS reflected a hybrid address—the name of the prior preparer, Jack, but the address of the new preparer, Joan. The USPS returned the notice as undeliverable.

# Improvements in Recording Third Party Addresses From Tax Returns Will Reduce Undeliverable Business Mail

Internal Revenue Service  
HOLTSVILLE, NY 00501

Form 1041

For assistance you may  
call us at:  
1-800-829-8815

FIRST-CLASS MAIL  
POSTAGE AND FEES  
PAID  
IRS PERMIT NO. G-48

PREFERRED FIRST-CLASS AUTO

RETURN TO SENDER  
INDICATE AGENCY &  
ROOM NUMBER

THE FULL AMOUNT YOU OWED FOR TAX FORM  
AMOUNT YOU OWE NOW IS SHOWN IN THE

INTERNAL REVENUE SERVICE  
HOLTSVILLE NY 00501

OFFICIAL BUSINESS  
PENALTY FOR PRIVATE USE \$300

MOVED, LEFT NO ADDRESS  
FORWARDING ORDER EX  
UNCLAIMED ☐ RETURN  
NO SUCH STREET  
INSUFFICIENT

